

CLARKSTON TOWN

Reviewed Financial Statements

For the Year Ended June 30, 2006

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FINANCIAL SECTION

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ACCOUNTANT'S REPORT

The Mayor and Town Council
Clarkston Town
Clarkston, Utah 84305

I have reviewed the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Clarkston, Utah, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Clarkston, Utah.

A review consists principally of inquiries of Town personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The Management's Discussion and Analysis on pages 3 through 9 and the budgetary comparison information on page 32, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, I do not express an opinion or any other form of assurance on the supplementary information.

MATTHEW REGEN, CPA, PC

Matthew Regen CPA PC

January 8, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Clarkston Town (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The total net assets (government and business-type activities) of the Town increased during fiscal year 2006 by \$20,171 to a total of \$1,229,068. The governmental net assets increased by \$2,570 and the business-type net assets increased by \$17,601.
- The total net assets (government and business-type activities) of the Town consist of \$919,624 in capital assets, net of related debt, \$118,169 in restricted net assets and \$191,275 in unrestricted net assets.

REPORTING THE TOWN AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. However, there will also be a need to consider other non-financial factors.
- *The statement of activities* presents information showing how the Town's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, parks and recreation, and public works. The business-type activities of the Town include the water utility. The government-wide financial statements can be found on pages 11 and 12 of this report.

See accountant's report

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The only major governmental funds (as determined by generally accepted accounting principles) are the General Fund and the Perpetual Care Fund.

- **Proprietary funds** - The Town maintains only one proprietary fund, an enterprise fund, to account for its culinary water utility operations. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. As determined by generally accepted accounting principles, the Water Fund meets the criteria for major fund classification.
- **Fiduciary funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town currently has no fiduciary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$1,229,068.

By far, the largest portion of the Town's net assets (75 percent) reflect its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less depreciation and any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following schedules present summarized information from the Statement of Net Assets and the Statement of Activities.

STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other assets	245,097	270,528	48,727	69,348	293,824	339,876
Capital assets	188,855	171,390	750,962	748,234	939,817	919,624
Total assets	433,952	441,918	799,689	817,582	1,233,641	1,259,500
Current liabilities	24,729	8,936	15	307	24,744	9,243
Noncurrent liabilities	-	21,189	-	-	-	21,189
Total liabilities	24,729	30,125	15	307	24,744	30,432
Invested in capital assets, net of debt	188,855	171,390	750,962	748,234	939,817	919,624
Restricted	92,197	110,669	6,000	7,500	98,197	118,169
Unrestricted	128,171	129,734	42,712	61,541	170,883	191,275
Total net assets	409,223	411,793	799,674	817,275	1,208,897	1,229,068

See accountant's report

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	108,543	123,526	75,515	79,418	184,058	202,944
Operating grants	37,913	48,812	1,500	-	39,413	48,812
Capital Grants & Contributions	-	-	-	-	-	-
General revenues:						
Property taxes	25,268	28,794	-	-	25,268	28,794
Sales and use taxes	53,369	54,172	-	-	53,369	54,172
Franchise taxes	3,158	1,799	1,174	-	4,332	1,799
Interest Income	-	8,063	-	1,536	-	9,599
Total revenues	228,251	265,166	78,189	80,954	306,440	346,120
Expenses:						
General government	67,021	102,349	-	-	67,021	102,349
Public safety	24,248	26,725	-	-	24,248	26,725
Streets and public improvements	37,420	44,947	-	-	37,420	44,947
Parks and recreation	48,309	56,508	-	-	48,309	56,508
Sanitation	30,324	32,067	-	-	30,324	32,067
Interest on long-term debt	-	-	-	-	-	-
Water	-	-	56,492	63,353	56,492	63,353
Total expenses	207,322	262,596	56,492	63,353	263,814	325,949
Changes in net assets	20,929	2,570	21,697	17,601	42,626	20,171
Net assets – beginning (07-01-05)	388,294	409,223	777,977	799,674	1,166,271	1,208,897
Net assets – ending (06-30-06)	409,223	411,793	799,674	817,275	1,208,897	1,229,068

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The financial reporting focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year.

See accountant's report

As of the end of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$240,403, an increase of \$20,035 over the prior year. Of this total amount \$129,734 constitutes unreserved fund balance, which is available to meet the future financial needs of the Town. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for the perpetual care of the cemetery.

The General Fund is the chief operating fund of the Town. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 35 percent of total General Fund revenues. The two largest elements of taxes are sales taxes and property taxes. Combined they represent 98 percent of total tax revenues and 34 percent of total General Fund revenues.

The Town maintains an enterprise fund to account for the business-type activities of the Town. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the current fiscal year the General Fund budget for revenues was \$275,503. The actual revenue was \$246,694. This resulted in an unfavorable variance of \$28,809 for revenue. The General Fund budget for expenditures was \$275,503. The actual expenditures were \$245,131. This resulted in a favorable variance of \$30,372 for expenditures. Overall, the Town had a favorable variance for the excess of revenues over expenditures of \$1,563.

CAPITAL ASSETS

Capital assets - The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$919,624 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, machinery and equipment, park facilities, roads and infrastructure (streets, sidewalks, curb and gutter, etc.). The increase in the Town's investment in capital assets for the current fiscal year was \$21,970 and depreciation expense was \$42,163.

Major capital assets purchased during the fiscal year totaled \$21,970 and consisted of improvements to the water system.

Additional information on the Town's capital assets can be found in the footnotes to this financial report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Clarkston Town, P.O. Box 181, Clarkston, Utah, 84305.

BASIC FINANCIAL STATEMENTS

CLARKSTON TOWN
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Pooled cash and cash equivalents	\$ 227,122	60,125	287,247
Receivables, net	43,406	9,223	52,629
Fixed assets, net	171,390	748,234	919,624
Total assets	441,918	817,582	1,259,500
<u>Liabilities</u>			
Liabilities:			
Accounts payable and accrued expenses	8,936	307	9,243
Deferred revenue	21,189	-	21,189
Total liabilities	30,125	307	30,432
<u>Net Assets</u>			
Investments in capital assets, net of related debt	171,390	748,234	919,624
Restricted:			
Perpetual care	110,669	-	110,669
Impact fees	-	7,500	7,500
Unrestricted	129,734	61,541	191,275
Total net assets	\$ 411,793	817,275	1,229,068

See accompanying notes and accountant's report

CLARKSTON TOWN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental:							
General government	\$ 102,349	43,760	-	-	(58,589)	-	(58,589)
Sanitation	32,067	32,307	-	-	5,582	-	5,582
Public safety	26,725	5,081	10,412	-	(16,574)	-	(16,574)
Streets and public improvements	44,947	-	34,996	-	(9,951)	-	(9,951)
Parks and recreation	56,508	42,378	3,404	-	(10,726)	-	(10,726)
Total governmental activities	262,596	123,526	48,812	-	(90,258)	-	(90,258)
Business-type activities:							
Water fund							
Total business-type activities	63,353	79,418	-	-	-	16,065	16,065
Total primary government	63,353	79,418	-	-	-	16,065	16,065
	\$ 325,949	202,944	48,812	-	(90,258)	16,065	(74,193)
General revenues:							
Taxes:							
Sales and use tax					54,172	-	54,172
Property tax					28,794	-	28,794
Franchise & other taxes					1,799	-	1,799
Total taxes					84,765	-	84,765
Interest income					8,063	1,536	9,599
Total general revenues					92,828	1,536	94,364
Change in net assets					2,570	17,601	20,171
Net assets - beginning					409,223	799,674	1,208,897
Net assets - ending					\$ 411,793	817,275	1,229,068

See accompanying notes and accountant's report

CLARKSTON TOWN
BALANCE SHEET -
GOVERNMENTAL FUNDS
JUNE 30, 2006

<u>Assets</u>	<u>General Fund</u>	<u>Perpetual Care Fund</u>	<u>Total Governmental Funds</u>
Pooled cash and cash equivalents	\$ 116,453	110,669	227,122
Receivables, net	<u>43,406</u>	<u>-</u>	<u>43,406</u>
Total assets	<u>159,859</u>	<u>110,669</u>	<u>270,528</u>
<u>Liabilities and Fund Equities</u>			
Liabilities:			
Accounts payable and accrued liabilities	8,936	-	8,936
Deferred revenue	<u>21,189</u>	<u>-</u>	<u>21,189</u>
Total liabilities	<u>30,125</u>	<u>-</u>	<u>30,125</u>
Fund equity:			
Fund balances			
Reserved - Perpetual care	-	110,669	110,669
Unreserved - Undesignated	<u>129,734</u>	<u>-</u>	<u>129,734</u>
Total fund equity	<u>129,734</u>	<u>110,669</u>	<u>240,403</u>
Total liabilities and fund equity	<u>\$ 159,859</u>	<u>110,669</u>	<u>270,528</u>

See accompanying notes and accountant's report

CLARKSTON TOWN
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances for governmental funds \$ 240,403

Net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 39,321	
Buildings	112,173	
Equipment	182,555	
Infrastructure	-	
Accumulated depreciation	<u>(162,659)</u>	171,390

Net assets of governmental activities \$ 411,793

See accompanying notes and accountant's report

CLARKSTON TOWN
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Perpetual Care Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 84,765	-	84,765
Licenses and permits	1,997	-	1,997
Intergovernmental	44,570	-	44,570
Charges for services	54,461	15,400	69,861
Fines and forfeitures	37,786	-	37,786
Miscellaneous revenues	23,115	3,072	26,187
	<u>246,694</u>	<u>18,472</u>	<u>265,166</u>
Total revenues			
Expenditures:			
General government	101,019	-	101,019
Sanitation	32,067	-	32,067
Public safety	25,592	-	25,592
Streets and public improvements	41,660	-	41,660
Parks and recreation	44,793	-	44,793
	<u>245,131</u>	<u>-</u>	<u>245,131</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>1,563</u>	<u>18,472</u>	<u>20,035</u>
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing uses			
Excess (deficiency) of revenues and other financing uses over expenditures and other financing uses	1,563	18,472	20,035
Fund balance - beginning of year	<u>128,171</u>	<u>92,197</u>	<u>220,368</u>
Fund balance - end of year	<u>\$ 129,734</u>	<u>110,669</u>	<u>240,403</u>

See accompanying notes and accountant's report

CLARKSTON TOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balance - Total governmental funds	\$ 20,035
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Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which capital outlays exceeded depreciation expense in the current year.

(17,465)

Changes in net assets of governmental activities	\$ <u>2,570</u>
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See accompanying notes and accountant's report

CLARKSTON TOWN
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
JUNE 30, 2006

<u>Assets</u>	<u>Water Fund</u>	<u>Total Business- Type Activities</u>
Pooled cash and cash equivalents	\$ 60,125	60,125
Receivables, net	9,223	9,223
Fixed assets, net	<u>748,234</u>	<u>748,234</u>
Total assets	<u>817,582</u>	<u>817,582</u>
 <u>Liabilities</u>		
Accounts payable and accrued liabilities	<u>307</u>	<u>307</u>
Total liabilities	<u>307</u>	<u>307</u>
 <u>Net Assets</u>		
Investments in capital assets, net of related debt	748,234	748,234
Restricted:		
Impact fees	7,500	7,500
Unrestricted	<u>61,541</u>	<u>61,541</u>
Total net assets	<u>\$ 817,275</u>	<u>817,275</u>

See accompanying notes and accountant's report

CLARKSTON TOWN
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Water Fund	Total Business- Type Activities
Operating revenues:		
Services	\$ 77,918	77,918
Impact fees	1,500	1,500
Total operating revenues	<u>79,418</u>	<u>79,418</u>
Operating expenses:		
Salaries and wages	17,416	17,416
Current expenses	21,239	21,239
Depreciation	24,698	24,698
Total operating expense	<u>63,353</u>	<u>63,353</u>
Operating income	16,065	16,065
Non-operating income:		
Interest income	1,536	1,536
Total non-operating income	<u>1,536</u>	<u>1,536</u>
Change in net assets	17,601	17,601
Net assets - beginning of year	<u>799,674</u>	<u>799,674</u>
Net assets - end of year	<u>\$ 817,275</u>	<u>817,275</u>

See accompanying notes and accountant's report

CLARKSTON TOWN
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Water Fund	Total Business- Type Activities
<u>Cash flows from operating activities:</u>		
Receipts from customers and users	\$ 79,972	79,972
Payments to employees	(17,416)	(17,416)
Payments to suppliers	(20,947)	(20,947)
Net cash provided by operating activities	41,609	41,609
<u>Cash flows from non-capital financing activities</u>	-	-
<u>Cash flows from capital and related financing activities:</u>		
Purchases of capital assets	(21,970)	(21,970)
Net cash used in capital and related financing activities	(21,970)	(21,970)
<u>Cash flows from investing activities:</u>		
Interest on investments	1,536	1,536
Net cash provided by investing activities	1,536	1,536
Net increase in cash and cash equivalents	21,175	21,175
Cash and cash equivalents at beginning of year	38,950	38,950
Cash and cash equivalents at end of year	\$ 60,125	60,125
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 16,065	16,065
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	24,698	24,698
Change in assets and liabilities:		
Decrease in accounts receivable	554	554
Increase in accounts payable	292	292
Total adjustments	25,544	25,544
Net cash provided by operating activities	\$ 41,609	41,609

See accompanying notes and accountant's report

CLARKSTON TOWN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Clarkston Town (the Town) was incorporated under the laws of the state of Utah. The Town operates by ordinance under the Mayor-Council form of government and provides such services as are authorized by its charter including public safety (police and fire), highway and streets, sanitation, recreation, public improvements, planning and zoning, and general administration. In addition, the Town owns and operates a water utility.

The accounting and reporting policies of the Town relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued prior to December 1, 1989, which do not conflict with or contradict GASB pronouncements. The Town has elected not to follow FASB pronouncements issued after November 30, 1989 in the preparation of these financial statements. The following represents the more significant accounting and reporting policies and practices used in the preparation of these financial statements:

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Town and its component units. The interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Town applies expenses for restricted resources first when both restricted and unrestricted net assets are available.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recognized only when payment is due.

Property taxes, state-shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and, therefore, have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the Town.

The Town reports the following major governmental funds:

- The General Fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Perpetual Care Fund is used to report resources legally restricted to the extent that earnings may only be used for purposes to support the Town's cemetery.

The Town reports the following major proprietary fund:

The Water Utility accounts for the activities of the Town's water production, treatment, and distribution operations.

Note 1 – Summary of Significant Accounting Policies (continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an individual cost of more than \$2,500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of all exhaustible fixed assets used is charged as an expense against the Town's operations. Accumulated depreciation is reported on the financial statements. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	10 to 40 years
Water system and equipment	7 to 50 years
Machinery and equipment	5 to 20 years
Infrastructure	50 years

In the governmental fund financial statements, the acquisition or construction of capital assets is accounted for as capital outlay expenditures.

Deferred Revenues

In the government-wide statements and the proprietary fund statements, deferred revenue is recognized when cash or other assets are received or recognized prior to being earned. In the governmental fund statements, deferred revenue is recognized when revenue is either unearned or unavailable.

Note 1 – Summary of Significant Accounting Policies (continued)

Equity Classifications

Equity in the government-wide financial statements is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted net assets – Consists of net assets with constraints placed on the usage whether by 1) external groups such as creditors, grantors or laws and regulations of other governments; 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental fund equity is classified as fund balance in the fund financial statements. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide financial statements.

Property Taxes

Cache County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The Town must adopt a final tax rate prior to June 22, which is then submitted to the State for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalties bear interest at 6% above the federal discount rate from January 1 until paid.

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within 60 days after year end.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for governmental and proprietary fund types. Encumbrance accounting is not employed by the Town in its governmental funds, therefore all annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital project funds.

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the Statement of Net Assets, the term “cash and cash equivalents” includes all demand deposit accounts, savings accounts, or other short-term, highly-liquid investments. For the purposes of the Statement of Cash Flows, the enterprise funds consider all highly liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents.

Note 2 – Deposits and Investments

The Town follows the requirements for the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This Act requires the depositing of Town funds in a “qualified depository”. The Act defines a “qualified depository” as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Utah Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Town’s deposits may not be returned. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2006 none of the Town’s bank balances were uninsured and/or uncollateralized.

Investments

The Act defines the types of securities authorized as appropriate investments for the Town and the conditions for making investment transactions. Investment transactions may only be conducted through qualified depositories, certified dealers or directly with the issuers of the investment securities.

Note 2 – Deposits and Investments (continued)

Statutes authorize the Town to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investors Service or Standards & Poor’s; bankers’ acceptances; obligations of the United States Treasury including bills, notes and bonds; bonds, notes and other evidence of indebtedness of political subdivisions of the state; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in money market mutual fund as defined by the Act; and the Utah State Public Treasurer’s Investment Fund (PTIF).

The Utah State Treasurer’s Office operates the PTIF. The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Act established by the Money Management Council which oversees the activities of the state treasurer and the PTIF, and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administrations fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

The Town’s investments on June 30, 2006, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u> (Less than one year)	<u>Quality Rating</u>
State of Utah PTIF	<u>\$270,381</u>	<u>\$270,381</u>	Unrated

Interest Rate Risk – Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The Town’s policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers’ acceptances, fixed rate negotiable deposits and fixed rate corporate obligations of 270 to 365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have remaining term to final maturity exceeding two years.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town’s policy for reducing its exposure to credit risk is to comply with the Act as previously discussed. See the quality ratings on the investment schedules above.

See accountant’s report

Note 2 – Deposits and Investments (continued)

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a formal investment policy for custodial credit risk in regard to the custody of the Town's investments.

Concentration of Credit Risk – Concentrations of credit risk is the risk of loss attributed to the magnitude of government's investment in a single issuer. The Town's policy for reducing this risk of loss is to comply with the Rules of Money Management Council.

Note 3 – Legal Compliance – Budgets

On or before the first scheduled Town council meeting in May, all agencies of the Town submit requests for appropriation to the Town's financial officer so that a budget may be prepared. The budget is prepared by fund, function, and activity, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The proposed budget is presented to the Town council for review at the first scheduled meeting in May. The Town council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes to the budget must be within the revenues and reserves estimated as available by the Town financial officer or the revenue estimates must be changed by an affirmative vote of a majority of the Town council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22 and adoption of budgets is done similarly.

State statute requires that Town officers shall not make or incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Note 4 – Receivables

The Town has property and sales taxes, accounts receivable and receivables due from other governments as of June 30, 2006 as follows:

General Fund:

Taxes:

Property taxes	\$	21,335
Sales taxes		<u>10,248</u>

Total taxes receivable		<u>31,583</u>
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Accounts:

Garbage		3,844
911 fees		<u>612</u>

Total accounts receivable		<u>4,456</u>
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Due from other governments:

Class "C" roads – State of Utah		<u>7,367</u>
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Total receivables	\$	<u>43,406</u>
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Water Fund:

Accounts:

Services and fees	\$	<u>9,223</u>
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Total receivables	\$	<u>9,223</u>
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Note 5 – Capital Assets

Capital asset changes occurring for the year ended June 30, 2006, are as follows:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ <u>39,321</u>	<u>-</u>	<u>-</u>	<u>39,321</u>
Total capital assets not being depreciated	<u>39,321</u>	<u>-</u>	<u>-</u>	<u>39,321</u>
Capital assets being depreciated:				
Buildings	112,173	-	-	112,173
Equipment	<u>182,555</u>	<u>-</u>	<u>-</u>	<u>182,555</u>
Total capital assets being depreciated	<u>294,728</u>	<u>-</u>	<u>-</u>	<u>294,728</u>
Accumulated depreciation for:				
Buildings	(39,613)	(4,280)	-	(43,893)
Equipment	<u>(105,581)</u>	<u>(13,185)</u>	<u>-</u>	<u>(118,766)</u>
Total accumulated depreciation	<u>(145,194)</u>	<u>(17,465)</u>	<u>-</u>	<u>(162,659)</u>
Total capital assets being depreciated, net	<u>149,534</u>	<u>(17,465)</u>	<u>-</u>	<u>132,069</u>
Total governmental activities Capital assets, net	\$ <u>188,855</u>	<u>(17,465)</u>	<u>-</u>	<u>171,390</u>

Depreciation expense was charged to functions of the Town as follows:

General government	\$ 1,330
Public safety	1,133
Streets and public improvements	3,287
Parks and recreation	<u>11,715</u>
Total depreciation expense	\$ <u>17,465</u>

See accountant's report

Note 5 – Capital Assets (continued)

	July 1, 2005	Additions	Deletions	June 30, 2006
<u>Business-type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,000	-	-	1,000
Total capital assets not being depreciated	1,000	-	-	1,000
Capital assets being depreciated:				
Equipment	15,809	21,970	-	37,779
Improvements	1,120,393	-	-	1,120,393
Total capital assets being depreciated	1,136,202	21,970	-	1,158,172
Accumulated depreciation for:				
Equipment	(3,134)	(2,291)	-	(5,425)
Improvements	(383,106)	(22,407)	-	(405,513)
Total accumulated depreciation	(386,240)	(24,698)	-	(410,938)
Total capital assets being depreciated, net	749,962	(2,728)	-	747,234
Total business-type activities capital assets, net	\$ 750,962	(2,728)	-	748,234

Note 6 – Impact Fees

The Town assesses impact fees for water improvements as allowed by state law. Impact fees represent fees assessed by the Town for future capital improvements. These fees are not intended to recover impact costs for growth in areas not assessed by the Town. The Town reports as restricted net assets and reserved fund balance the excess of the impact fees collected over the uses for identified projects.

Note 7 – Restricted Net Assets/Reserved Fund Equity

Restricted net assets and reserved fund balances represent amounts required to be maintained to satisfy third party agreements or legal requirements. The following schedule details restricted net assets and reserved equity balances at June 30, 2006:

Perpetual Care Fund:

Perpetual care of the cemetery	\$ <u>110,669</u>
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Water Fund:

Impact fees	\$ <u>7,500</u>
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REQUIRED SUPPLEMENTARY INFORMATION

CLARKSTON TOWN
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property tax	\$ 28,600	28,600	28,794	194
Sales tax	57,800	57,800	54,172	(3,628)
Franchise tax	1,790	1,790	1,799	9
Licenses and permits	1,915	1,915	1,997	82
RAPZ tax	1,150	1,150	2,302	1,152
Intergovernmental	34,260	34,260	42,268	8,008
Charges for services	96,020	96,020	54,461	(41,559)
Fines and forfeitures	34,800	34,800	37,786	2,986
Miscellaneous revenues	19,168	19,168	23,115	3,947
Total revenues	275,503	275,503	246,694	(28,809)
Expenditures:				
General government	98,448	98,448	101,019	(2,571)
Public safety	27,170	27,170	25,592	1,578
Streets and public improvements	47,260	47,260	41,660	5,600
Sanitation	35,000	35,000	32,067	2,933
Parks and recreation	67,625	67,625	44,793	22,832
Total expenditures	275,503	275,503	245,131	30,372
Excess (deficiency) of revenues over expenditures	-	-	1,563	1,563
Other financing sources uses: Transfers in:	-	-	-	-
Total other financing uses	-	-	-	-
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses \$	-	-	1,563	1,563
Fund balance - beginning of year	\$		128,171	
Fund balance - end of year	\$		129,734	

See accountant's report

CLARKSTON TOWN
NOTE TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2006

Expenditure in Excess of Budget

The General Government department of the General Fund had expenditures in excess of budget in the amount of \$2,571 for the year ended June 30, 2006.

See accountant's report